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SUBJECT: SWEDEN'S AUTOMOBILE SUBSIDY PROGRAM

REF: A) STATE 4753

¶1. Summary: The Swedish automobile industry (Volvo Cars - owned by Ford; Saab Automobile - owned by GM) has shed about 7700 jobs since the financial crisis began in September 2008. Sales are down in January 2009 by 50 percent, compared to last January. The Swedish government has issued a rescue package valued at U.S. \$3.4 billion to boost the industry. The program will be divided into credit guarantees, emergency loans and research funds. Saab Automobile and Volvo Cars are both hoping to benefit from the government package. End Summary.

¶2. On December 18, 2008, the Swedish government issued a package valued at \$3.4 billion to help prop up its ailing automobile industry. The package mainly consists of credit guarantees up to \$2.4 billion on loans from the European Investment Bank (EIB). Some \$363.5 million of the Swedish support package will be used as research funds. Another \$606 million has been earmarked for emergency loans to automobile companies in an acute financial crisis. In addition, ALMI, a state-owned business development company, will be able to provide up to 80 percent of the financing needs of Small and Medium-Sized Enterprises (SMEs) in the auto industry and other areas.

¶3. Swedish automobile industry subcontractors, which had hoped to see more direct actions from the government, will have to rely on the \$606 million emergency loans for the time being, leaving many suppliers with an acute liquidity problem. Svenake Berglie, General Manager of Scandinavian Automotive Suppliers, told the press that he had hoped for more capital and quicker actions from the government to help suppliers of automobile components. According to Berglie, the majority of Swedish automobile component suppliers were already in desperate need of help at the end of 2008. The Swedish government will end the \$1,200 subsidy it has offered to buyers of environmentally friendly automobiles starting June 30. Andreas Carlgren, Minister for the Environment, told the press that the subsidy was granted in order to kick-start the sales of clean cars, which has now been accomplished.

¶4. Representatives from the Swedish auto industry have requested a subsidy for scrapping old cars. This would decrease emissions from old and unclean cars and stimulate the ailing auto industry. An estimation of January's sales shows a decrease of 50 percent compared to the same period last year. During the fall, Volvo Cars decreased the number of employees by 5,000 worldwide. Stephen Odell, General Manager of Volvo Cars, stated to the press that the company might be forced to make further cuts if the situation does not improve. He is content with the support package released in mid-December, but continues to wait for concrete actions to take place.

¶5. On January 27, 2009, a Swedish government official announced that General Motors (Saab Automobile's owner) will not receive any credit guarantees until GM presents a credible business plan. The measures in the plan are needed to combat the decrease in sales, Joran Hagglund, State Secretary in the Ministry of Enterprise, told the press.

¶6. On January 29, 2009, Volvo Cars announced a loss for the last

quarter of 2008 of \$736 million. On the same day Volvo Cars also applied for a loan of \$609 million, relying on the Government's credit guarantees that constitute a large part of the auto industry rescue package.

SILVERMAN